Revisiting economic progress in selected countries in Sub Saharan Africa: Covid-19 and oil price drop

Accepted 16th July, 2020

ABSTRACT

Sub-Saharan Africa is facing an unprecedented health and economic crisis; one that threatens to reverse the developmental progress of recent years. This study tries to examine economic progress in sub-Saharan African in the period of Covid-19 and fluctuations in Oil Prices in Nigeria, South African and Ghana. The study took an endogenous view on the impact at which oil price drop and the increasing case of COVId-19 have on the various sectors of the economy especially sectors such as tourism, oil, and mines which are the mainstay of the economy within the region. Empirically, it is shown that countries within the region have been adversely affected by COVID-19 which has led to a slow pace in the economic progress and accumulation of huge debt profiles. The study recommends that a comprehensive measure is needed to reduce economic and humanitarian losses. Timely fiscal support is crucial to protect vulnerable groups and ensure quick recovery when the pandemic fades.

Key words: Oil price, Covid-19, economic progress.

JEL CODE: E6, H3, H6, R0.

INTRODUCTION

The novel coronavirus disease, also known as COVID-19, is a respiratory disease that causes an extremely terrible respiratory disorder. The first cases of the disease were discovered in November 2019 in Wuhan, China (Ma, 2020). The disease has kept the world on a standstill by disrupting all activities in which humans engage as the disease was declared a pandemic on 30 January. This marked the beginning of restrictions of movement of all sorts, including flight travel. Governments of various countries continue to scramble for the protection of the health of their citizen. As at the time of writing this report on 15 June 2020 the total confirmed cases in 188 regions and countries stood at 7,934,277 million, while the death recorded was more than 433,919, the total number of the recovered cases stood at 3.78 million people (COVID-19 Dashboard by the Center for Systems Science and Engineering, 2020). COVID-19 has affected both the supply and demand sectors of every economy; this is evident as seen in the drop in prices of commodity including crude oil. The International Monetary funds (IMF) states that Global growth is projected to drop from 2.9% in 2019 to -3% in 2020” (IMF, 2020). The fall in oil price within the period of the pandemic could be connected to the demand and supply chain which eventually halted due to lockdown measures adopted by various countries of the world to curtail the spread of the virus. The world indeed witnessed a grasp down in oil leading to a frequent drop in oil price up to a negative value.

However, a brief look at the oil sector shows a major hit on the sector, oil prices lost about 50% of their worth with a drop from 67USD per barrel to below 30USD per barrel (OECD, 2020). Key oil producers to curtail the global impact of the crisis proposed a reduction in its production; this is in response to the low consumption of the product as a result of the decline in movements globally. The Oil exporters association OPEC agreed with its member to cut oil supply by 1.5 million barrel per day until the end of June 2020 to regulate the impact of the COVID-19 on the sector
and given the global interest, this agreement was also to be adopted by the non-OPEC members. Besides, the idea was not given a strict nod by some oil producers, Saudi Arabia for instance on the 8th of March 2020 announced their increment in oil production and this triggered another oil producer especially the non-OPEC members in retaliation to increase their production hence triggering oil wars especially among the non-OPEC member which resulted to a tumbling oil price (African Union Report, 2020).

COVID 19 has affected both the supply and demand sectors of every economy; this is evident as seen in the drop in prices of commodities including crude oil. The International Monetary fund (2020) states that Global growth is projected to drop from 2.9% in 2019 to -3% in 2020. However, a brief look at the oil sector shows a major hit on the sector, oil prices loss of about 50% of their worth with a drop from 67 USD per barrel to below 30USD per barrel. The crisis that accompanied the Covid-19 Pandemic is affecting the global economy. African economies remain vulnerable, informal, and exverted to the exogenous encounter. Tourism, aviation sector, education, health, manufacturing, oil, and gas sector are visibly affected. In addition to the woes of an average African economy that has been struggling to recover from the shock of the pre-2008 economic crisis, the COVID-19 crisis is plunging the global economy to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertainty since the World War II. The World Bank predicts a fall in GDP for the region to depths uncertain...
that the proponents of this theory based their assumption on the oil-importing nation, it invariably means that for the oil-exporting countries, an increase in the prices of oil will boost the revenue of the economy and subsequently leads to the growth of the economy, while a fall in the price of crude oil will result in a substantial decrease in the growth of the economy as the revenue from oil will decline.

**Asymmetry theory:** The proponents of this school of thought stated that the influence of the uncertainty in the prices of crude oil on the microeconomic performance is responsible for the asymmetric reaction of the real output to the innovations in oil price. Lee and Ralti (1995) argued that the relationship between the shock in oil prices and the growth of the economy is a function of the environment of the stability of oil prices. What this means is that a shock in the price of oil in an environment with stable oil prices will have a higher effect on economic growth than a shock at the price of oil in an environment with oil price volatility. There was an attempt by the proponent of this model to juxtapose between changes in oil prices and volatility in oil prices. They stated that oil price volatility has a negative and substantial influence on the growth of the economy while the influence of the changes in oil price manifests as from one year.

With the rapid fluctuations in the price of crude oil between January 2020 when the coronavirus outbreak was declared a pandemic till the time of writing this report in June 2020 as shown in the statement of the problem, the effect on the growth of the economy in the oil-producing sub-Saharan African countries need to be examined given that they depend more on the revenue from oil to fund over 60% of their estimated annual budget (Figure 1).

Within the period of the COVID-19 has witnessed a continuous decrease in a gross domestic product as seen in Figure 1, sharp growth slowdown among key trading partners is reducing external demand. Also, tightening global financial conditions are reducing investment flows and adding to external pressures (IMF, 2020). Finally, a sharp decline in commodity prices, especially oil, is exacerbating challenges in some of the region's largest, resource-intensive economies. This slowdown in the pace of growth in economic progress is fully connected to the ravaging gains of the spread of coronavirus which has drastically reduced economic activities around the globe. Thus, most countries have resulted in high debt gains to solve the surrounding problems of their various economies. These countries have a large chunk of debt and mixed with a non-working economic which could be attributed to governance, corruption, and mismanagement of public fund. These have made the sub-Saharan African countries to be worse hit by the trends of COVID-19 (Figure 2).

Tourism is one of the key sectors of the economy to drive employment and development, but the COVID-19 pandemic has systematically and negatively overhauled the situation from what it used to be. The challenges faced by the tourism sector as a result of the pandemic is unprecedented, the sector is experiencing a rapid and sharp drop in demand and a surge in job losses at global level, putting many SMEs and many other enterprises at risk.

However, according to the World Tourism Organization (UNWTO), the international tourist arrivals will drop by 20 to 30% in 2020 when compared with 2019 figures, equivalent to a loss of 300 to 450 US$ billion in international tourism receipts (exports) which is almost one-third of the US$ 1.5 trillion generated globally. Besides, according to African Union prediction, the tourism and travel sector in Africa could lose about $50 billion as a result of the pandemic, also predicted was about 2 million jobs lose both direct and indirect, with a major hit on a
major tourism center in Africa such as Seychelles, Gambia, Cape Verde, and Mauritius at about 7% shrink in growth (AU Report, 2020).

Within the period of COVID-19, oil prices have witnessed a steady decline in price. This could be connected to the chain of demand and supply which oil production was hampered by the scourge of the pandemic. Thus, this drop in oil price had an erroneous effect on the economics of sub-Saharan African which most countries' economics fully depend on the proceed from this to finance their developmental budget. However, this has led to a review in spending among countries and where funds are not available, such countries resort into borrowing thereby accumulating huge debt profile and making the economy to be static.

**Covid-19: Economic situation of selected Sub Saharan African countries as it affects inflation, unemployment and drop in supply Chain in agriculture (Nigeria, South African and Ghana)**

**Nigeria**

The current economic situation in Nigeria and several other Africa countries is becoming more and more gloomy. This is as a result of the impact of the COVID-19 pandemic that have ravaged and kept the whole world including economic activities on a stand still. Business activities have remained closed and only recently resumed in a partial manner. This has led to increase in the price level of the little available food, loss of jobs and raising inflation rate (Figure 3).

The monthly data for inflation provided in Figure 3 show that inflation have been increase. Bamidele (2020) was of the opinion that with the increase in the rate of inflation for the 8th consecutive months, recession may just be by the corner. The current rising inflation is accompanied by raising unemployment rate which is currently 23% and projected to get to reach 33.5% by the end of the year. This clearly shows that Nigeria is currently experiencing stagflation. The current scenario has also affected the cultivation and supply of food. The production of staple commodities in Nigeria is capital-intensive, and currently the labor been undersupply, the movement restrictions associated with coronavirus has negative effect on their production. The logistics for the distribution of products is harmed, nevertheless, as it impedes food transport through towns, regions, nations including countries. The high-value commodities, on the other hand, require a large amount of labor to produce.

**South Africa**

The economy of South Africa has suffer her own share of the effect of the COVID-19 disease pandemic and the unemployment rate within the economy rose to 29.1% in January and further increased to 30.1 in February which is the highest since the 2017. The inflation rate in South Africa appears to be low even in the event of the COVID-19 and further dropped from 4.1 to 3% in the month of April 2020 (Figure 4).

The agricultural supply chain also suffered a decline just like the case of Nigeria, as the food supply chain dwindle,
due to lack of business operation and labour to carry out the value chain activities.

**Ghana**

The impact of the coronavirus on the Ghanaian economy, resulted in the drop of the estimated GDP growth rate from target of 6.8 to 2.6%. Before the coronavirus pandemic, Ghana had a very low rate of inflation of 7.9% as at December 2019, however, as at April 2020, the inflation rate surged to 10.6% and increased further to 11.3% in May 2020 (Figure 5).

The unemployment rate in Ghana is another economic factor that gradually increases as the rate of unemployment increased from 6.8% in January 2020 to 7.30% in May 2020. Though this may not be much as expected but the gradual increase in the cases of the virus is 23,830 as at 12th July 2020. As regards to the issues of food supply chains and general agribusiness, Awuah (2020) noted that this sector of the economy in Ghana have been seriously affected. For instance, Cashew is a major export crops that
generates between the range of $378 million and $981 million annually for Ghana, with the current situation that have seen price plummet to $75 from $130 for each of the of the 100 kg. On the issue of supply chain for agricultural products, the situation is not different from what is obtainable in the countries discussed earlier in this study.

Policy targeting for Sub-Saharan African countries economy in the hike of oil price drop and Covid-19 era for selected countries

The Covid-19 insurgence has exposed certain bottlenecks to the economies of Sub-Saharan Countries and a major call to all decision makers to make far reaching policies that can place the economy competitive in the face of any eventuality such as Covid-19 which has crumble various sectors such as health care, volume of trade and for countries that are monocultural economy as Nigeria where a slight change in oil price distorts the level of economic progress. The following policies are recommended:

1. There is a strong call for total diversification of the economy as it regards the revenue base by departing from oil based dependence while supporting local content in production, which will facilitate investment in the health sector as this will afford the economy to recover fast from any pandemic than depending on aids and grants from other countries such as China.
2. Policy makers should come up with fiscal policy stimulus aimed at targeting the Small and medium scale business and local firm by encouraging them through tax cut and tax waiver in certain sectors of the economic as agriculture and local content as this will leverage the impact of Covid-19 to the economy.
3. Various economies are expected to cut down external debt while channeling existing finance from external debt on investment drive in the economy as this will decrease the high unemployment rate witnessed within the pandemic era.
4. Countries within the region are faced with one economic problem or the other, so it is advised that a well-adjusted, growth policy be adopted that can facilities adjustments in expenditure while investing more in her various domestic economic by supporting local content.
5. There is need for policy makers to revise budgetary provision to account for covid-19 realities in terms of increasing spending in health care service as its needful at this point in time.
6. Finally, debt vulnerabilities constraining fiscal response in sub-Saharan Africa contracted due to solving issues of COVID-19 and falling oil price should be elevated such that high levels of debt and interest payments will squeeze out room for social development spending with the economy which will motivate the economy again to advance in growth.

Conclusion

In the pace of Covid-19 which has affected the health care climate of the world and indeed the backward and unfunded health sector of countries within Sub Saharan African, expenditure in health must be of paramount importance at this time. this is irrespective of the huge debt levels and space and fiscal policy space. It is also important
to note that the present economies of Sub Saharan African are witnessing some certain aspect temporary shock due to increase cases occurrence of confirmed case and fluctuation in oil prices, some discretionary fiscal support is warranted, even in countries with limited space. The focus should be on targeted measures that alleviate liquidity constraints on vulnerable firms and households caused in the course of the covid-19 pandemic.

REFERENCES


Cite this article as:


Submit your manuscript at http://www.academiapublishing.org/journals/jbem